Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

December 12, 2005

Mr. Gary L. Harbin
Executive Secretary
Teachers' Retirement System
Commonwealth of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Dear Gary:

Enclosed are 20 bound copies and one unbound copy of the "Teachers' Retirement System of the State of Kentucky Report of Actuary on the Valuation Prepared as of June 30, 2005".

Sincerely yours,

Edward A. Macdonald, ASA, FCA, MAAA
President

EAM:sh

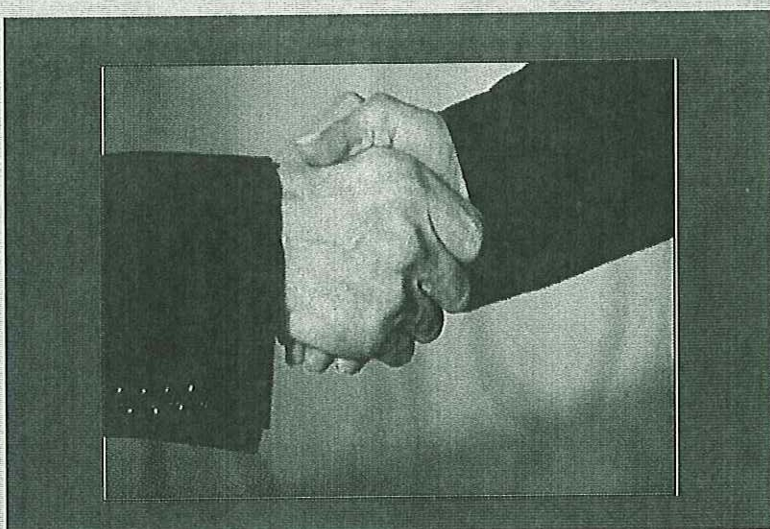
Enclosure

S:\Kentucky Teachers\2005 Valuation\val 2005.doc

665 Molly Lane Suite 150, Woodstock, GA 30189
Phone (678) 388-1700 • Fax (678) 388-1730
www.CavMacConsulting.com

Cavanaugh Macdonald
CONSULTING, LLC

The experience and dedication you



Teachers' Retirement System of the State of Kentucky Report of Actuary on the Valuation

Prepared as of June 30, 2005

665 Molly Lane, Suite 150
Woodstock, GA 30189
Phone (678) 388-1700
Fax (678) 388-1730
www.CavMacConsulting.com

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

December 12, 2005

Board of Trustees
Teachers' Retirement System of the
State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that the actuary shall make an actuarial valuation of the System. We have submitted the results of the annual actuarial valuation prepared as of June 30, 2005. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that combined member and state contributions for the fiscal year ending June 30, 2008 at the rate of 23.82% of university members' salaries and 26.78% of non-university members' salaries are required to support the benefits of the System. This represents an increase since the previous valuation in the required employer contribution rate of 1.45% of payroll. There has been a net increase in the state special appropriation from 3.93% to 4.17%, or 0.24% of payroll. Therefore, for the 2007/2008 fiscal year, in addition to the state statutory contribution rates and the state special appropriation, there is a required increase in the employer contribution rate of 1.32%; 1.21% from this valuation and 0.11% from the previous valuation. The contribution to the Life Insurance Fund and the Medical Insurance Fund would remain constant at 0.17% and 1.50% respectively.

The valuation takes into account the effect of amendments to the System enacted through the 2005 Session of the Legislature.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the unit credit actuarial cost method with projected benefits. Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.0% annually. The assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedule A, Schedule B, Schedule C, Solvency Test and Analysis of Financial Experience shown in the Actuarial Section of the Annual Report.

665 Molly Lane Suite 150, Woodstock, GA 30189
Phone (678) 388-1700 • Fax (678) 388-1730
www.CavMacConsulting.com

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

In our opinion the System is operating on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

Respectfully submitted,

Edward A. Macdonald, ASA, FCA, MAAA
President

EAM:sh

TABLE OF CONTENTS

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
REPORT OF ACTUARY ON THE VALUATION
PREPARED AS OF JUNE 30, 2005

SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (all dollar amounts are $1,000's):

Valuation Date	June 30, 2005		June 30, 2004*	
Number of active members	72,281		71,950	
Annual salaries	$ 2,703,430		$ 2,641,533	
Number of annuitants and beneficiaries	37,402		35,803	
Annual allowances	$ 994,745		$ 914,879	
Assets:				
Market value	$ 13,456,026		$ 12,858,540	
Actuarial value	$ 14,598,843		$ 14,255,131	
Unfunded actuarial accrued liability	$ 4,536,027		$ 3,362,495	
Amortization period (years)	30		30	
	Univ.	Non-Univ.	Univ.	Non-Univ.
Pension Plan:				
Normal	14.39%	17.84%	14.19%	18.02%
Accrued liability	9.43	8.94	8.18	7.31
Total	23.82%	26.78%	22.37%	25.33%
Member	7.625%	9.105%	7.625%	9.105%
State (ARC)	16.195	17.675	14.745	16.225
Total	23.82%	26.78%	22.37%	25.33%
Life Insurance Fund:				
State	0.17%	0.17%	0.17%	0.17%
Medical Insurance Fund:				
Member	0.75%	0.75%	0.75%	0.75%
State Match	0.75	0.75	0.75	0.75
State Additional	0.00	0.00	0.00	0.00
Total	1.50%	1.50%	1.50%	1.50%
Total Contributions	25.49%	28.45%	24.04%	27.00%
Contribution rates for fiscal year ending:	June 30, 2008		June 30, 2007	
Member Statutory	8.375%	9.855%	8.375%	9.855%
State Statutory	11.625	13.105	11.625	13.105
Required Increase	1.32	1.32	0.11	0.11
State Special	4.17	4.17	3.93	3.93
Total	25.49%	28.45%	24.04%	27.00%

*Reported by prior actuarial firm.

2. The valuation indicates that combined member and State contributions at the rate of 23.82% of salaries for university members and at 26.78% for non-university members are sufficient to support the current benefits of the System. We also recommend that 0.17% be contributed by the state to the Life Insurance Fund and 1.50% combined member and state contributions be made to the Medical Insurance Fund. Comments on the valuation results as of June 30, 2005 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

3. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. There have been no changes since the previous valuation.

4. The valuation takes into account the effect of amendments to the System enacted through the 2005 Session of the Legislature. There have been no changes since the previous valuation.

SECTION II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 2005 on the basis of which the valuation was prepared.

GROUP	NUMBER	ANNUAL SALARIES ($1,000's)
Males	17,665	$ 737,455
Females	54,616	1,965,975
Total	72,281	$ 2,703,430

The table reflects the active membership for whom complete valuation data was submitted. The results of the valuation were adjusted to take account of inactive members and members for whom incomplete data was submitted.

2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the Retirement System as of the valuation date.

THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF ANNUITANTS AND BENEFICIARIES ON THE ROLL AS OF JUNE 30, 2005

GROUP	NUMBER	ANNUAL RETIREMENT ALLOWANCES[1] ($1,000's)
Service Retirements	32,567	$ 908,542
Disability Retirements	1,982	45,492
Beneficiaries of Deceased Members	2,853	40,711
Total	37,402	$ 994,745

[1]Includes cost-of-living adjustments effective through July 1, 2005.

3. Table 1 of Schedule F shows a distribution by age and years of service of the number and annual salaries of active members included in the valuation, while Table 2 shows the number and annual retirement allowances of annuitants and beneficiaries included in the valuation, distributed by age.

SECTION III - ASSETS

1. As of June 30, 2005 the market value of Pension Plan assets for valuation purposes held by the System amounted to $13,456,025,741. This value excludes assets in the Medical Insurance Fund, the 403(b) Program Reserve Fund, and the Life Insurance Fund, which are not included in the assets used for Pension Plan valuation purposes.
2. The five-year market related value of Pension Plan assets used for valuation purposes as of June 30, 2005 was $14,598,842,537. Schedule B shows the development of the actuarial value of assets as of June 30, 2005.
3. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the Pension Plan, Medical Insurance Fund and the Life Insurance Fund.

SECTION IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are $1,000's). The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule D.

2. The valuation shows that the System has an actuarial accrued liability of $7,764,477 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of benefits payable to annuitants and beneficiaries amounts to $11,199,130 of which $967,426 is for special appropriations remaining to be made toward funding minimum annuities, ad hoc increases and sick leave allowances granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is $171,263. The total actuarial accrued liability of the System amounts to $19,134,870. Against these liabilities, the System has present assets for valuation purposes of $14,598,843. When this amount is deducted from the actuarial accrued liability of $19,134,870, there remains $4,536,027 as the unfunded actuarial accrued liability.

3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 14.39% of payroll for university members and 17.84% for non-university members.

SECTION V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.375% of annual salary to the System and each non-university member will contribute 9.855% of annual salary. Of this amount, 0.75% is paid to the Medical Insurance Fund for medical benefits leaving 7.625% for university members and 9.105% for non-university members applicable for the retirement benefits taken into account in the valuation.

2. Section 161.550 provides that the State will match the member contributions and contribute a supplemental 3.25% of members' salaries towards discharging the System's unfunded obligations. The System was amended as of June 30, 2000 to allow the Board to allocate up to a maximum of the entire 3.25% to the Medical Insurance Fund. For the 2007/2008 fiscal year, we recommend that the Board allocate the entire 3.25% towards the Pension Plan.

3. Therefore, 10.875% of active university members' salaries and 12.355% of active non-university members' salaries is funded by statute or supplemental funding for the Pension Plan and Life Insurance Fund. Of this amount, 0.17% of payroll will be allocated to the Life Insurance Fund. Based on the results of the valuation, an additional 1.32% of payroll for both university and non-university will be required in order to maintain the amortization of the unfunded liability of the Pension Plan within a 30-year period. An additional special appropriation of $112,865,500, or 4.17% of total payroll will be made by the State. The total required employer contribution rate to the Pension Plan is, therefore, 16.195% for university members and 17.675% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

CONTRIBUTION RATES BY SOURCE

	UNIVERSITY	NON-UNIVERSITY
Member		
Statutory Total	8.375%	9.855%
Statutory Medical Insurance Fund	(0.75)	(0.75)
Contribution to Pension Plan	7.625%	9.105%
Employer		
Statutory Matching Total	8.375%	9.855%
Statutory Medical Insurance Fund	(0.75)	(0.75)
Supplemental Funding	3.25	3.25
Subtotal	10.875%	12.355%
Life Insurance	(0.17)%	(0.17)%
Additional to Maintain 30-Year Amortization	1.32	1.32
Special Appropriation	4.17	4.17
Contribution to Pension Plan	16.195%	17.675%
Total Contribution to Pension Plan	23.82%	26.78%

4. The valuation indicates that normal contributions at the rate of 14.39% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 17.84%. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability rate is 9.43% for university members and 8.94% for non-university members. These rates include special appropriations of $112,865,500 or 4.17% of payroll to be made by the State. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

RATE	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
	UNIVERSITY	NON-UNIVERSITY
Normal	14.39%	17.84%
Accrued liability*	9.43	8.94
Total	23.82%	26.78%

* Includes special appropriations of $112,865,500 or 4.17% of payroll to be made by the State.

5. The unfunded actuarial accrued liability amounts to $4,536,027,000 as of the valuation date. Accrued liability contributions at the rate of 9.43% of active university members' payroll and 8.94% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on the assumption that the payroll will increase by 4.0% annually.

SECTION VI - COMMENTS ON LEVEL OF FUNDING

1. The benefit percentage for non-university members is 2.0% for service accrued through July 1, 1983 and 2.5% for service up to 30 years accrued after that date. However, for members who join the System on or after July 1, 2002 and retire with less than 10 years of service, the benefit percentage is 2.0%. For members who joined the System on or after July 1, 2002, who retire with 10 or more years of service, the benefit percentage is 2.5% for all years of service up to 30 years. For all members who retire on or after July 1, 2004, the benefit percentage for service earned in excess of 30 years is 3.0%. The total net contribution rate is 26.78% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 23.82%. Our calculations indicate that these contribution rates will be sufficient to cover the benefits of the System, the annual 1.5% increases in the allowances of retired members and beneficiaries, and the liabilities for minimum annuities, ad hoc increases and sick leave allowances granted after 1981.
2. The valuation indicates that the present statutory contribution rates, supplemental funding and special appropriations, if continued at the current level percentage, along with an additional required contribution of 1.32%, not currently provided in statute, are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. However, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the unfunded liability within a period of 30 years.
3. The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits, and there is an increase in the required employer contribution of 1.32% of payroll for the fiscal year ending June 30, 2008. In addition, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the unfunded liability within 30 years. Any further benefit improvements must be accompanied by the entire additional contributions necessary to support the benefits.

SECTION VII – ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase of $1,173,532,000 in the unfunded accrued liability from $3,362,495,000 to $4,536,027,000 during the year ending June 30, 2005.

ANALYSIS OF FINANCIAL EXPERIENCE
(Dollar amounts in thousands)

ITEM	AMOUNT OF INCREASE/ (DECREASE)
Interest (7.50%) added to previous unfunded accrued liability	$ 252,187
Accrued liability contribution	(153,746)
Experience:	
Valuation asset growth	372,991
Pensioners' mortality	47,482
Turnover and retirements	40,017
New entrants	48,552
Salary increases	32,385
Amendments	0
Assumption and method changes*	533,664
Total	$ 1,173,532

*Includes impact of change in actuarial software.

SECTION VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED MEMBERS
AS OF JUNE 30, 2005**

GROUP	NUMBER
Retirees and beneficiaries currently Receiving benefits	37,402
Terminated employees entitled to Benefits but not yet receiving benefits	4,033
Active plan members	72,281
Total	113,716

2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/2000*	$12,759,636	$13,330,418	$ 570,782	95.7%	$2,133,743	26.8%
6/30/2001**	13,299,161	14,642,129	1,342,968	90.8	2,213,772	60.7
6/30/2002	13,588,847	15,695,574	2,106,726	86.6	2,313,663	91.1
6/30/2003	13,863,786	16,594,781	2,730,995	83.5	2,497,731	109.3
6/30/2004	14,255,131	17,617,626	3,362,495	80.9	2,641,533	127.3
6/30/2005	14,598,843	19,134,870	4,536,027	76.3	2,703,430	167.8

* Reflects change in asset valuation method and System amendments.
** Reflects change in decremental assumptions.

All figures prior to 6/30/2005 were reported by prior actuarial firm.

3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2005. Additional information as of the latest actuarial valuation follows.

Valuation date	6/30/2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of Return*	7.50%
Projected salary Increases*	4.00 - 8.10%
Cost-of-living adjustments	1.50% Annually
*Includes inflation at	4.00%

TREND INFORMATION

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
June 30, 2003	$322,046,968	100%	$0
June 30, 2004	364,351,412	100	0
June 30, 2005	383,776,826	100	0

SCHEDULE A

RESULTS OF THE VALUATION
PREPARED AS OF JUNE 30, 2005
($1,000's)

1.	**ACTUARIAL ACCRUED LIABILITY**		
	Present value of prospective benefits payable in respect of:		
	(a) Present active members:		
	- Service retirement benefits	$ 7,210,009	
	- Disability retirement benefits	338,112	
	- Death and survivor benefits	56,079	
	- Refunds of member contributions	160,277	
	Total		$ 7,764,477
	(b) Present inactive members and members entitled to deferred vested benefits:		171,263
	(c) Present annuitants and beneficiaries:		
	- Service retirement benefits	$10,358,244	
	- Disability retirement benefits	443,592	
	- Death and survivor benefits	397,294	
	Total		$ 11,199,130
	(d) Total actuarial accrued liability		$ 19,134,870
2.	**PRESENT ASSETS FOR VALUATION PURPOSES**		$ 14,598,843
3.	**UNFUNDED ACTUARIAL ACCRUED LIABILITY [(1) minus (2)]**		$ 4,536,027
4.	**NORMAL CONTRIBUTION RATE**		
		UNIVERSITY	NON-UNIVERSITY
	(a) Actuarial present value of benefits accruing annually	$ 23,438	$ 453,257
	(b) Annual payroll of active members	$ 162,858	$ 2,540,572
	(c) Normal contribution rate [4(a) divided by 4(b)]	14.39%	17.84%

SCHEDULE A

(continued)

SOLVENCY TEST
(in millions of dollars)

Fiscal Year	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
2000	$2,128.4	$7,183.4	$4,018.6	$12,759.6	100%	100%	86%
2001	2,215.5	8,037.0	4,389.6	13,299.2	100	100	69
2002	2,302.3	8,816.9	4,576.4	13,588.8	100	100	54
2003	2,413.9	9,329.3	4,851.6	13,863.8	100	100	44
2004	2,546.1	9,906.2	5,165.3	14,255.1	100	100	35
2005	2,621.3	11,370.4	5,143.2	14,598.8	100	100	12

All figures prior to 6/30/2005 were reported by prior actuarial firm.

SCHEDULE B

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
AS OF JUNE 30, 2005

(1)	Actuarial Value Beginning of Year		$ 14,255,130,659
(2)	Market Value End of Year		$ 13,456,025,741
(3)	Market Value Beginning of Year		$ 12,858,540,479
(4)	Cash Flow		
	a.	Contributions	$ 630,801,344
	b.	Benefit Payments	(970,494,680)
	c.	Net	$ (339,693,336)
(5)	Investment Income		
	a.	Market total: (2) – (3) – (4)c	$ 937,178,598
	b.	Assumed Rate	7.50%
	c.	Amount for Immediate Recognition [(1) x (5)b] + [(4)c * (5)b * 0.5]	$ 1,056,396,299
	d.	Amount for Phased-In Recognition (5)a – (5)c	$ (119,217,701)
(6)	Phased-In Recognition of Investment Income		
	a.	Current Year: 0.20*(5)d	$ (23,843,540)
	b.	First Prior Year	(349,147,545)
	c.	Second Prior Year	0
	d.	Third Prior Year	0
	e.	Fourth Prior Year	0
	f.	Total Recognized Investment Gain	$ (372,991,085)
(7)	Actuarial Value End of Year: (1) + (4)c + (5)c + (6)f		$ 14,598,842,537
(8)	Difference Between Market & Actuarial Values (2) – (7)		$ (1,142,816,796)

SCHEDULE C

PENSION PLAN ASSETS
SUMMARY OF RECEIPTS AND DISBURSEMENTS*
(Market Value)

	For the Year Ending	
	June 30, 2005	June 30, 2004
Receipts for the Year		
Contributions		
Members	$ 247,024,518	$ 238,922,086
Employers	383,776,826	364,351,412
Total	$ 630,801,344	$ 603,273,498
Net Investment Income	943,831,270	1,156,237,635
TOTAL	$ 1,574,632,614	$ 1,759,511,133
Disbursements for the Year		
Benefit Payments	$ 959,518,739	$ 881,270,288
Refunds to Members	10,975,941	10,477,435
Medical Insurance Payments	0	0
Miscellaneous, including expenses	6,652,672	6,572,592
TOTAL	$ 977,147,352	$ 898,320,315
Excess of Receipts over Disbursements	$ 597,485,262	$ 861,190,818
Reconciliation of Asset Balances		
Asset Balance as of the Beginning of the Year	$ 12,858,540,479	$ 11,997,349,661
Excess of Receipts over Disbursements	597,485,262	861,190,818
Asset Balance as of the End of the Year	$ 13,456,025,741	$ 12,858,540,479
Rate of Return on Market Value	7.44%	9.76%

* Excludes assets for Medical Insurance Fund, the 403(b) Program Reserve Fund and the Life Insurance Fund.

SCHEDULE C

MEDICAL INSURANCE FUND
SUMMARY OF RECEIPTS AND DISBURSEMENTS
(Market Value)

	For the Year Ending	
	June 30, 2005	June 30, 2004
Receipts for the Year		
Contributions		
Members	$ 51,576,031	$ 53,903,551
Employers	79,022,562	53,346,747
Total	$ 130,598,593	$ 107,250,298
Net Investment Income	6,507,538	7,127,109
TOTAL	$ 137,106,131	$ 114,377,407
Disbursements for the Year		
Benefit Payments	$ 0	$ 0
Refunds to Members	9,072	12,150
Medical Insurance Payments	142,349,436	119,297,357
Miscellaneous, including expenses	4,070,892	3,970,311
TOTAL	$ 146,429,400	$ 123,279,818
Excess of Receipts over Disbursements	$ (9,323,269)	$ (8,902,411)
Reconciliation of Asset Balances		
Asset Balance as of the Beginning of the Year	$ 156,634,164	$ 165,536,575
Excess of Receipts over Disbursements	(9,323,269)	(8,902,411)
Asset Balance as of the End of the Year	$ 147,310,895	$ 156,634,164

SCHEDULE C

LIFE INSURANCE FUND
SUMMARY OF RECEIPTS AND DISBURSEMENTS
(Market Value)

	For the Year Ending	
	June 30, 2005	June 30, 2004
Receipts for the Year		
Contributions		
Members	$ 0	$ 0
Employers	4,569,612	17,928,687
Total	$ 4,569,612	$ 17,928,687
Net Investment Income	2,239,285	1,945,052
TOTAL	$ 6,808,897	$ 19,873,739
Disbursements for the Year		
Benefit Payments	$ 3,852,800	$ 4,015,800
Refunds to Members	0	0
Medical Insurance Payments	0	0
Miscellaneous, including expenses	0	0
TOTAL	$ 3,852,800	$ 4,015,800
Excess of Receipts over Disbursements	$ 2,956,097	$ 15,857,939
Reconciliation of Asset Balances		
Asset Balance as of the Beginning of the Year	$ 61,016,107	$ 45,158,168
Excess of Receipts over Disbursements	2,956,097	15,857,939
Asset Balance as of the End of the Year	$ 63,972,204	$ 61,016,107

SCHEDULE D

OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS

The assumptions and methods used in the valuation were selected by the Actuary based on the actuarial experience investigation as of June 30, 2000 and adopted by the Board of Trustees on December 17, 2001.

INVESTMENT RATE OF RETURN: 7.5% per annum, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 4.0% per annum:

Age	Annual Rate
20	8.10%
25	7.20
30	6.20
35	5.50
40	5.00
45	4.70
50	4.50
55	4.30
60	4.20
65	4.00

SEPARATIONS FROM SERVICE: Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

Males

	Annual Rate of				
Age	Death	Disability	Withdrawal	Service Retirement*	Early Retirement
20	.003%	.01%	8.65%		
25	.010	.01	8.95		
30	.016	.02	6.46		
35	.032	.04	4.49		
40	.048	.08	3.21		
45	.064	.18	2.12	15.00%	
50	.104	.33	2.33	15.00	
55	.216	.55	3.00	25.00	4.00%
60	.375	.87		20.00	
62	.438	1.03		28.00	
65	.566			40.00	
70				100.00	

*It is also assumed that an additional 20% will retire in the first year eligible for unreduced benefits if before age 60.

Females

Age	Death	Disability	Withdrawal	Service Retirement*	Early Retirement
	Annual Rate of				
20	.002%	.03%	7.16%		
25	.007	.03	8.34		
30	.014	.04	6.30		
35	.026	.07	4.08		
40	.044	.14	2.61		
45	.055	.26	1.92		
50	.066	.42	2.02	15.00%	
55	.085	.64	2.50	30.00	5.00%
60	.122	.91		25.00	
62	.137	1.05		25.00	
65	.159			35.00	
70				100.00	

*It is also assumed that an additional 25% will retire in the first year eligible for unreduced benefits if before age 60.

DEATHS AFTER RETIREMENT: Representative values of the assumed annual rates of death after service and disability retirement are as follows:

	Annual Rate of Death After			
	Service Retirement		Disability Retirement	
Age	Male	Female	Male	Female
45	.2%	.1%	5.1%	4.5%
50	.3	.2	5.1	4.5
55	.5	.2	5.1	4.5
60	.9	.4	5.1	4.5
65	1.7	.7	5.1	4.5
70	2.8	1.4	5.1	4.5
75	4.2	2.6	5.1	4.5
80	6.5	4.4	7.8	6.1
85	10.1	7.5	12.3	10.5
90	15.5	12.8	19.1	17.6
95	21.9	21.1	29.2	28.8

ACTUARIAL METHOD: Unit Credit Actuarial Cost Method with projected benefits. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

ASSETS: Five-year market related actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the assumed valuation rate of return of 7.50%. The amount recognized each year is 20% of the difference between market value and expected actuarial value.

EXPENSE LOAD: None.

PERCENT MARRIED: 100%, with females 3 years younger than males.

LOADS:

Unused sick leave: 1% of active liability

SCHEDULE E

SUMMARY OF MAIN SYSTEM PROVISIONS AS INTERPRETED FOR VALUATION PURPOSES

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2005. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1 - DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

2 - BENEFITS

Service Retirement Allowance

Condition for Allowance: Completion of 27 years of service or attainment of age 55 and 5 years of service.

Amount of Allowance: The annual retirement allowance for non-university members is equal to:

(a) 2.0% of final average salary multiplied by service before July 1, 1983, plus

(b) 2.5% of final average salary multiplied by service after July 1, 1983.

(c) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years.

(d) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

For all members, the annual allowance is reduced by actuarial equivalent factors from the earlier of age 60 or the date the member would have completed 27 years of service.

The minimum annual service allowance for all members is $440 multiplied by credited service.

Disability Retirement Allowance

Condition for Allowance	Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.
Amount of Allowance	The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than $6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.
Benefits Payable on Separation from Service	Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.
Life Insurance	A separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

Death Benefits

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of $2,880 except that if income from other sources exceeds $6,600 per year the annual allowance will be $2,160.

A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

Number of Children	Annual Allowance
1	$ 2,400
2	4,080
3	4,800
4 or more	5,280

The allowances are payable until a child attains age 18, or age 19 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

Options

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

3 - CONTRIBUTIONS

Member Contributions

University members contribute 8.375% of salary of which 7.625% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Non-university members contribute 9.855% of salary of which 9.105% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Member contributions are picked up by the employer.

SCHEDULE F

TABLE 1

AGE – SERVICE TABLE

Distribution of Active Members as of June 30, 2005 by Age and Service Groups

Attained Age	Completed Years of Service								
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	≥ 35	Total
24 & under	2,944								2,944
Total Pay	35,679,848								35,679,848
Avg. Pay	12,120								12,120
25 to 29	7,109	1,145							8,254
Total Pay	180,290,643	43,836,055							224,126,698
Avg. Pay	25,361	38,285							27,154
30 to 34	3,787	4,515	749						9,051
Total Pay	95,377,213	180,632,810	34,517,489						310,527,512
Avg. Pay	25,185	40,007	46,085						34,309
35 to 39	2,826	2,465	3,034	752					9,077
Total Pay	65,247,778	101,717,938	145,827,229	38,728,625					351,521,570
Avg. Pay	23,088	41,265	48,064	51,501					38,727
40 to 44	3,988	1,496	1,591	2,224	675				9,974
Total Pay	64,719,282	63,591,229	78,520,983	116,679,277	36,507,247				360,018,018
Avg. Pay	16,229	42,508	49,353	52,464	54,085				36,096
45 to 49	2,083	1,300	1,356	1,458	2,015	865	1		9,078
Total Pay	46,938,869	57,121,592	67,580,240	78,917,276	113,040,831	49,021,756	75,669		412,696,233
Avg. Pay	22,534	43,940	49,838	54,127	56,100	56,673	75,669		45,461
50 to 54	2,225	1,103	1,303	1,424	1,227	2,283	746		10,311
Total Pay	45,536,093	50,367,045	68,267,837	77,560,448	70,802,922	135,207,271	46,388,697		494,130,313
Avg. Pay	20,466	45,664	52,393	54,467	57,704	59,224	62,183		47,923
55 to 59	3,079	713	833	1,059	808	855	764	121	8,232
Total Pay	52,041,255	34,151,525	44,942,999	59,627,241	47,173,238	54,155,283	52,882,850	8,986,406	353,960,797
Avg. Pay	16,902	47,898	53,953	56,305	58,383	63,340	69,218	74,268	42,998
60 to 64	1,828	218	227	349	282	257	116	114	3,391
Total Pay	25,760,125	11,465,856	12,625,420	20,034,315	17,129,896	16,502,711	8,812,751	9,439,648	121,770,722
Avg. Pay	14,092	52,596	55,619	57,405	60,744	64,213	75,972	82,804	35,910
65 & over	1,561	68	54	73	56`3,226,802	49	38	70	1,969
Total Pay	13,484,871	3,765,409	3,300,803	4,286,750	57,621	3,232,675	2,461,994	5,238,590	38,997,894
Avg. Pay	8,639	55,374	61,126	58,723		65,973	64,789	74,837	19,806
Total	31,430	13,023	9,147	7,339	5,063	4,309	1,665	305	72,281
Total Pay	625,075,977	546,649,459	455,583,000	395,833,932	287,880,936	258,119,696	110,621,961	23,664,644	2,703,429,605
Avg. Pay	19,888	41,976	49,807	53,936	56,860	59,902	66,440	77,589	37,402

TABLE 2

NUMBER OF RETIRED MEMBERS AND BENEFICIARIES
AND THEIR BENEFITS BY AGE

Attained Age	Number of Members	Total Annual Benefits	Average Annual Benefit
49 & Under	859	$ 9,892,507	$ 11,516
50 – 54	2,580	78,018,056	30,240
55 – 59	7,704	246,951,914	32,055
60 – 64	7,125	216,610,571	30,401
65 – 69	5,688	158,181,170	27,810
70 – 74	4,389	110,577,421	25,194
75 – 79	3,532	78,936,569	22,349
80 & Over	5,525	95,576,747	17,299
Total	37,402	$ 994,744,955	$ 26,596